

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 L-03 INT-05 OPIC-03 SS-15

NSC-05 IO-10 H-02 AGR-05 FEA-01 PA-01 PRS-01 USIA-06

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TO SECSTATE WASHDC 9782

INFO ALL EC CAPITALS 1210

AMEMBASSY OTTAWA

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TAGS: EIND, EEC

SUBJECT: INVESTMENT IN LDC MINING OPERATIONS--EC COMMISSION
CONSULTATIONS WITH THE EC MINING INDUSTRY

REF: STATE 242712

1. SUMMARY: THE EC COMMISSION HAD A VERY USEFUL CONSULTATION
WITH REPRESENTATIONS OF THE EC MINING INDUSTRY ON SEPT. 24.
WE HAVE OBTAINED A REPORT ON THE MEETING WHICH COVERED A
VARIETY OF INVESTMENT AND COMMODITY ISSUES RELATED TO THE
SUPPLY OF RAW MATERIALS, MAINLY FROM LDCS. THE INDUSTRY
OFFERED TO COOPERATE WITH THE COMMISSION ON VARIOUS STUDIES
AND PROPOSALS INCLUDING ONE ON A PROPOSED EUROPEAN INVEST-
MENT GUARANTEE SYSTEM. END SUMMARY.

2. ON SEPT. 24 THE COMMISSION MET WITH REPRESENTATIVES
OF THE MAJOR EUROPEAN MINING COMPANIES. A COMMISSION OFFI-
CIAL ATTENDING THE CONSULTATION GAVE US THE FOLLOWING RUN-
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DOWN.

3. PROTECTION OF INVESTMENTS: THE INDUSTRY COMPLAINED THAT IT IS GETTING INCREASINGLY DIFFICULT TO OBTAIN FINANCING FOR MINING INVESTMENTS IN LDCS BECAUSE OF THE HIGH DEGREE OF POLITICAL RISK. THEY SAID THAT AMONG THE MEMBER STATES ONLY GERMANY HAS AN EFFECTIVE SYSTEM FOR QUARANTINING INVESTMENTS AGAINST POLITICAL RISKS. THE INDUSTRY REPRESENTATIVES ARGUED THAT A COMMUNITY INVESTMENT GUARANTEE SYSTEM WOULD BE DESIRABLE AND PROMISED TO PROVIDE THE COMMISSION WITH THE FOLLOWING INFORMATION: A) THE INVESTMENT CAPITAL FLOWS THAT WILL BE NECESSARY IN THE COMING YEARS TO ASSURE EUROPE'S SUPPLY OF RAW MATERIALS; B) THE PERCENTAGE OF INVESTMENTS THAT SHOULD BE GUARANTEED; C) THE TYPES OF RISKS THEY WOULD LIKE COVERED (E.G. NATIONALIZATION, REPATRIATION OF CAPITAL); D) PREMIUMS THEY WOULD CONSIDER REASONABLE. THE COMMISSION'S DIRECTORATE GENERAL FOR DEVELOPMENT AND COOPERATION AGREED TO PREPARE A NEW PROPOSAL FOR A COMMUNITY INVESTMENT GUARANTEE SYSTEM. (GERMANY AND THE UK OPPOSED AN EARLIER PROPOSAL FOR A COMMUNITY INVESTMENT GUARANTEE SYSTEM, AND OUR CONTACT BELIEVES GERMANY WILL PRESENT THE STRONGEST OPPOSITION TO ANY NEW PROPOSALS.)

4. PROCESSING RAW MATERIALS IN LDCS: THE INDUSTRY REPRESENTATIVES WERE NOT OPPOSED TO PROCESSING IN PRODUCING COUNTRIES BUT DISCOUNTED IT AS A SERIOUS SOLUTION TO LDC DEVELOPMENT PROBLEMS. THEY ARGUED THAT A) A MINING OPERATION MUST HAVE A VERY LARGE OUTPUT TO SUPPORT AN ON-SITE PROCESSING OPERATION; B) TRANSPORT OF "BLISTERS" IS LESS COSTLY THAN TRANSPORTING SEMI-FINISHED PRODUCTS; C) PROCESSING IS HIGHLY CAPITAL INTENSIVE AND THE INVESTMENT PER JOB CREATED MAKES IT AN UNECONOMIC WAY TO CREATE LOCAL EMPLOYMENT.

5. ATTITUDE TOWARD JOINT VENTURES WITH LOCAL GOVERNMENTS: THE INDUSTRY SAID PARTICIPATION OF LOCAL GOVERNMENTS IN MINING INVESTMENTS IS A FACT OF LIFE. WHAT THEY DID NOT LIKE WAS EQUITY CONTROL OF THE PROJECT BY THE LOCAL GOVERNMENT. THEY CONSIDERED THAT THE IDEAL SOLUTION WOULD BE TO HAVE 45 PERCENT OF THE CAPITAL HELD BY THE COMPANY, 45 PERCENT BY THE LOCAL GOVERNMENT AND 10 PERCENT BY AN ORGANIZATION SUCH AS THE WORLD

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BANK OR THE EUROPEAN INVESTMENT BANK IF ITS CHARTER COULD ALLOW IT. THE GREAT ADVANTAGE OF THIS SCHEME WOULD BE THAT THE PRESENCE OF A RESPECTED INTERNATIONAL INSTITUTION WITH A "BLOCKING MINORITY" COULD GUARANTEE THE LDC THAT THE MINING COMPANY (OFTEN A LARGE MNC) ACT IN ACCORDANCE WITH NATIONAL ECONOMIC AND SOCIAL OBJECTIVES. ON THE OTHER HAND, THE INTERNATIONAL INSTITUTION COULD PROTECT THE MNC AGAINST ABUSE BY THE LOCAL GOVERNMENT, INCLUDING NATIONALIZATION.

(LANGUAGE USED BY OUR SOURCE WAS STRIKINGLY SIMILAR TO THAT
IN REFTEL, PARA 7.)

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6. ON THIS POINT OUR SOURCE NOTED THAT DURING THE NEGOTIATION OF THE EC/ACP CONVENTION OF LOME THE EC HAD BEEN UNABLE TO OBTAIN A GUARANTEE FOR INVESTMENTS. THE ACP SIDE WANTED A RECIPROCAL COMMITMENT THAT THE COMMUNITY WOULD ASSURE THAT EUROPEAN COMPANIES RESPECT ACP ECONOMIC AND SOCIAL OBJECTIVES. THE EC COULD NOT MAKE THAT TYPE OF COMMITMENT AS IT HAS NO JURISDICTION OVER INVESTMENTS IN THIRD COUNTRIES.

7. RELATIONS WITH DEVELOPED COUNTRY PRODUCERS: THE INDUSTRY WAS VERY PLEASED WITH THE RECENT RAW MATERIALS (NON-FERROUS METALS AND FOREST PRODUCTS) MISSION TO CANADA ORGANIZED BY THE EC COMMISSION. THERE WAS A GOOD EXCHANGE OF VIEWS WITH FEDERAL AND REGIONAL OFFICIALS AND THE EUROPEANS WERE ABLE TO DESCRIBE CHANGES IN CANADIAN LAWS AND REGULATIONS THAT WERE NECESSARY TO MAKE FOR AN ENVIRONMENT MORE HOSPITABLE TO INVESTMENT. THE INDUSTRY WOULD LIKE A SIMILAR MISSION

ORGANIZED FOR AUSTRALIA AND EVENTUALLY TO MEXICO AND BRAZIL.

8. OECD INVESTMENT/MNC EXERCISE: OUR SOURCE VOLUNTEERED
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THAT BECAUSE OF THE INTEREST OF THE EUROPEAN MINING INDUSTRY
IN ASSURING NATIONAL TREATMENT ON INVESTMENTS IN CANADA AND
AUSTRALIA THEY WOULD BE ANXIOUS TO SEE THE EC MOVE AHEAD
ON THE OECD INVESTMENT EXERCISE WITHOUT WAITING FOR PARALLEL
MOVEMENT ON MNC GUIDELINES.

9. US INTERNATIONAL FINANCE CORPORATION CAPITAL EXPANSION
PROPOSAL AT THE SEVENTH SPECIAL SESSION: THE INDUSTRY WAS
VERY MUCH IN FAVOR OF THE US PROPOSAL BUT SAID THAT THEY WOULD
PREFER TO BORROW FROM THE EUROPEAN INVESTMENT BANK BECAUSE
PROCEDURES ARE LESS COMPLICATED. THEY ALSO FELT THAT THE IFC
FAVORS US FIRMS.

10. COMMODITY AGREEMENTS: THE INDUSTRY SAID THAT IT WAS
INTERESTED IN COMMODITY AGREEMENTS AND OFFERED TO AID THE
COMMISSION IN DOING A COST-BENEFIT STUDY ON THE PROPOSED
TUNGSTEN AGREEMENT.

11. ASSESSMENT OF EC RAW MATERIAL REQUIREMENTS: THE INDU-
STRY AGREED TO SET UP A WORKING PARTY WITH THE COMMISSION
TO STUDY VARIOUS HYPOTHESES ON EC RAW MATERIAL SUPPLIES THROUGH
1985. THE FIRST COMMODITY TO BE STUDIED WILL BE COPPER AND
THE INDUSTRY PROMISED TO HAVE THAT REPORT COMPLETED IN THREE
MONTHS.

12. THE COMMISSION AND THE INDUSTRY REPRESENTATIVES AGREED
TO MEET AGAIN FOLLOWING THE DECEMBER MEETING OF THE CONFER-
ENCE ON INTERNATIONAL ECONOMIC COOPERATION.GREENWALD

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